Committee on Ways and Mean

H.R. 2896, the “American Job Creation Act of 2003”

Why International Tax Reforms Matter: Anecdotal Evidence

Having foreign operations actually increases, not decreases, U.S. jobs and production. In 2000, U.S. multinationals exported $439 billion of goods. Without these foreign operations, domestic exports, domestic production, and domestic jobs would be drastically reduced.

As illustrated by the examples set forth below, when U.S. employers are competitive in the global marketplace, they are better able to enhance the demand for U.S. products and services and to create U.S. jobs.

- **Foreign affiliates of U.S.-based global companies are responsible for purchasing a substantial portion of U.S. exports**.

- The **Dow Chemical Company’s** operations illustrate the way in which foreign direct investment creates new markets for American products. Dow’s overseas facilities not only serve as customers for raw materials produced in the United States, but also provide distribution for the company’s full product lines – including where only a small portion is produced locally in the foreign countries. In 2002, Dow exported $3.76 billion, with 80 percent of those sales going to related subsidiaries.

- **Wal-Mart**, the nation’s largest retailer (with facilities in all 50 states and 10 foreign countries), provides another example of how international success bolsters U.S. exports. As Wal-Mart opens new stores overseas, the company provides additional markets for the U.S. products it sells. As just one example, agricultural products from the United States are sold in Wal-Mart stores all over the world.

- **Procter and Gamble** provides an example of how international markets provide U.S. corporations a substantial opportunity for growth. P&G staples such as Tide detergent and Bounty paper towels are so dominant in the U.S. that future growth is limited. But in countries such as Russia and China, particularly outside major population centers, hundreds of millions of people have never purchased a P&G product. For example, baby care is a $19 billion worldwide market for P&G and its competitors. If market penetration achieves U.S.-like levels in developing countries, baby care could mushroom to over $100 billion. This expansion would create high paying new jobs in the U.S. in fields such as strategic planning, finance, legal, human resources, and marketing.

- **As the operations of U.S. employers expand abroad, there is a corresponding increase in R&D and other high value-added jobs in the United States.**

➢ R&D is particularly critical to high-tech companies and technology-based manufacturers because product life cycles are very short. In order to maintain competitive prices, these companies need to amortize the costs of R&D over the maximum number of units sold worldwide. **Dow** is typical of many U.S. global companies. Headquartered in Midland, Michigan, the company naturally houses many of the functions necessary for its global operations there. For example, 87 percent of Dow's over $1 billion in 2002 global R&D spending was performed in the United States, the majority in Midland.

➢ **GE Transportation Services**, the largest manufacturer of locomotives in the world, is based in Erie, Pennsylvania. GE is in negotiations with the Russian government to modernize a significant part of the Russian diesel locomotive fleet, a $4 Billion opportunity. The Russian government, not surprisingly, wants some jobs in Russia. As a result, GE would manufacture the diesel locomotive engines in Russia; however, over fifty percent of the modernization inputs, including the high technology propulsion and control systems, would be manufactured in Pennsylvania. Without the Russian engine plant, there will be no deal. Without the deal, there would not be jobs in Erie manufacturing propulsion and control systems to modernize Russian locomotives.

➢ **Xilinx** generates approximately $1.5 billion in annual revenue, approximately 65% of which comes from international customers. Notwithstanding the high percentage of international sales, 80% of the company's 2,600 employees are located in the United States. Most of these jobs are in the fields of R&D, marketing, and other high-paying core competencies.

➢ Similarly, **Cisco's** recent history supports the premise that international sales help create more U.S. jobs than international jobs. Cisco's international operations account for 40% of its total revenue but only 28% of its 34,466 employees. On average, from fiscal year 1996 through fiscal year 2000, Cisco's international sales accounted for 50% of the company's annual sales growth. But for the same period, the company's international employment accounted for only 29% of its annual employment growth.

➢ As another example, **Wal-Mart** supports its international operations at its headquarters in Bentonville, Arkansas, where it employs over 15,000 people. Roughly 1,500 associates in its information systems division are responsible for coordinating the worldwide distribution systems that move Wal-Mart's products to 10 countries around the globe. Before Wal-Mart began to expand overseas in the mid-1990s, most of these 1,500 jobs did not exist.

- **Additionally, thousands of businesses, small and large, support and depend on the global operations of U.S. multinational companies.**

➢ Many U.S. companies employ thousands Americans who supply **Wal-Mart's** overseas operations, including several thousand in Arkansas. For example, Proctor & Gamble has over 300 employees, Coca-Cola has 100 employees, and Mars has about 100 associates at Wal-Mart's Bentonville headquarters. Their sole purpose is to support their companies' worldwide sales to Wal-Mart.

➢ A direct connection exists between the ability to provide services globally and the ability to sustain and grow employment in the United States. When **EDS** wins a global services contract, for example, that contract is supported by the work of EDS employees around the world. Moreover, when EDS wins a global contract and implements that contract worldwide, the company draws heavily on software and equipment developed in the United States. Clearly, U.S. suppliers, including suppliers that have no overseas operations, have a stake in the ability of U.S. companies to be globally competitive.